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SUBJECT: U.S. AGROBUSINESS FIRM HINGES NORTHERN THAILAND INVESTMENT
PLANS ON GMO APPROVAL

REF: BANGKOK 4513

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Summary

1. The U.S. agrobusiness firm Monsanto finds northern Thailand an advantageous location for low-cost production of hybrid corn seeds for domestic and export markets. Monsanto is poised to make significant new investment here if the Thai Government lifts its moratorium on biotech crop field trials - an outcome for which Monsanto is vigorously lobbying. Without such a move, Monsanto fears Thailand could lose its competitive edge in corn seed production to regional rivals that are moving more quickly toward genetically modified (GMO) crop production. End Summary.

Indochina Intersection

2. CG recently traveled to Phitsanulok (pop. 84,000), the capital of Thailand's lower northern province of the same name. The city sits astride Southeast Asia's two major international land routes: the East-West Danang-Rangoon corridor, and the North-South corridor linking southern China's Yunnan province to Bangkok and onward to Singapore. Civic and business leaders seek to exploit this strategic location by marketing Phitsanulok as the "Indochina Intersection." The centerpiece of their plan is to attract investment for building a distribution/logistics center in the next five to ten years, local Chamber of Commerce officials told us.

U.S. Firm Builds Network of Small Thai Corn Farmers

3. One investor that has already taken advantage of Phitsanulok's location - in this case, its proximity both to Thailand's northern corn belt and to Bangkok, only 230 miles away - is the U.S. agrobusiness/biotechnology firm Monsanto. Monsanto Seeds (Thailand) Limited develops and produces hybrid corn seeds for both domestic and international markets. Its state-of-the-art research center in Phitsanulok develops high-yield maize hybrids that are resistant to drought, herbicide, and insecticide.

¶4. Located near the heart of the northern corn belt, Monsanto distributes its hybrid corn seeds to a network of 6,000 to 8,000 small farmers, who then grow them in large quantities that Monsanto buys back for sale in Thailand and abroad. According to Phitsanulok plant director Luis Silva, in the last three years Monsanto has paid out USD 17 million to its network of growers, and anticipates paying another 8 to 10 million in 2008. The bulk of the growers are small farmers with land holdings for four acres or less in the northern provinces of Chiang Mai, Lampang, Phrae, and Uttaradit.

Phitsanulok to Peru

¶5. Domestically, Monsanto has formed a joint venture with Thailand's CP (Charoen Pokaphan) Corporation, Silva said. Together they hold nearly two-thirds of the domestic seed corn market (Monsanto at 37% plus CP at 28%). Hybrid corn seeds processed by Monsanto in Phitsanulok are also exported abroad to countries in South and Southeast Asia. In addition, CG saw huge stacks of seeds labeled for export to Peru. Silva noted that Monsanto can export seed corn to Peru more cheaply from Thailand than from its plants in Argentina and Brazil. This is because Thai production costs are so low, due to: the efficiency of Thai growers; northern Thailand's ideal climate for corn; and the country's excellent transportation infrastructure for getting product from northern Thai growers to Phitsanulok for processing, then onward to Bangkok and nearby ports.

Cautious Toward China Due to IPR Concerns

¶6. Monsanto does not export hybrid corn seed to China, Silva told us, due to concerns about weaknesses in Chinese IPR protection. Monsanto is interested in cracking the China market, however, and is negotiating with Chinese officials for greater product copyright protection. In the meantime, Monsanto

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has established a joint venture in southern China that is developing its own hybrid seed corn (instead of producing - and then potentially copying -- Monsanto-developed strains).

Investment Plans Hinge on GMO Approval

¶7. For Monsanto, the big money - and thus potential big investment - hinges on whether the Royal Thai Government (RTG) lifts its moratorium on biotech crop field trials (Reftel). According to Silva, Monsanto envisions Thailand as its regional base for corn seed export, if and when the RTG permits production of genetically modified organisms (GMO). Should the RTG take this step, Monsanto is poised immediately to invest USD 10 million to expand significantly the production capacity of its Phitsanulok plant. This figure would boost the plant's capital asset value by over 80%, and is more than triple the amount of new capital investment made by Monsanto in Phitsanulok in the last three years.

¶8. Northern Thailand's strong competitive advantage in corn seed production is the reason for Monsanto's focus on the GMO issue here, Silva said. The region's climate, transport infrastructure, and efficient farmers make it better suited for large-scale production than other Southeast Asian countries where Monsanto produced corn seed; i.e., the Philippines, Vietnam, and Indonesia. Although the Philippines currently permits biotech crops, Monsanto has found it cheaper to sell GMO corn seeds from its facilities in South Africa and Argentina, because of poor quality control among its Filipino growers. This would not be the case if biotech production could begin in Thailand. Monsanto believes it could export GMO corn seeds from Thailand to markets as far away (and as lucrative) as the U.S., Brazil, and Argentina.

¶9. Monsanto's Bangkok office has been lobbying the RTG vigorously to lift its moratorium on biotech crops field trials, Silva said. In the absence of such a move, Monsanto believes Thailand could lose its competitive edge in corn seed production to regional rivals that are moving more quickly toward GMO production, such as China, Indonesia, and Vietnam. Silva expressed cautious optimism that the civilian government expected to take office after elections planned for this December might lift the moratorium. He claimed many RTG officials recognize the advantages of GMO crops, which require less insecticide, fertilizer, and water, and are capable of speedier development into improved strains. They also reportedly share Monsanto's view that environmental NGOs are exaggerating fears that GMO crops will "contaminate" traditional crops.

Recruiting Challenges in "The Phits"

¶10. Monsanto's Phitsanulok plant has 100 full-time manufacturing employees, and surges to as high as 350 workers during peak production. The plant's research and development facility employs about another 40 full-time workers. All employees are Thai except for Silva, a Brazilian. Silva told us that, although it was not difficult to find good Thai employees, filling the top professional slots was a challenge because the country's best and brightest prefer to live and work in Bangkok over Phitsanulok, despite incentive pay offers from Monsanto. To strengthen local recruitment, Monsanto has launched an internship program with engineering and agriculture students at Phitsanulok's Naresuan University. This year Monsanto has six such interns working four-month stints.

Comment

¶11. Monsanto is comfortably established in Phitsanulok and should continue to do well in sales of hybrid corn seeds within the Thai and regional Southeast Asian markets. But for Thailand to become a significant player with worldwide reach and staying power in the global corn seed market - and Monsanto is bullish on this potential -- the RTG will have to move forward and permit GMO production.

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